TESCO

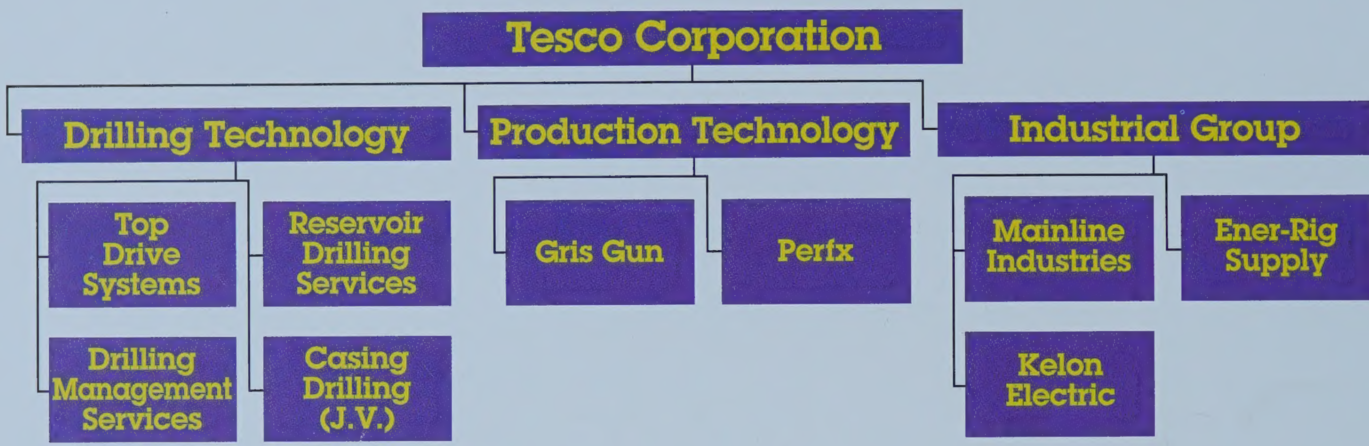
CORPORATION

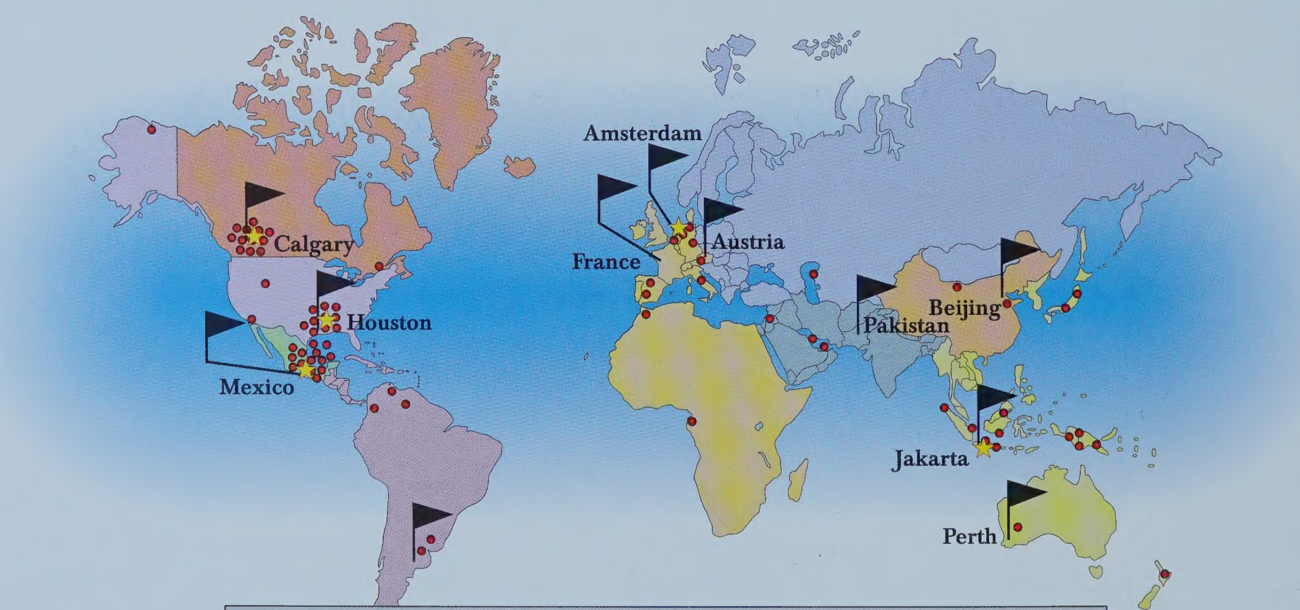
growth through technical and business innovation

1997 ANNUAL REPORT

Corporate Profile

Tesco Corporation is an international oilfield service company operating in over twenty countries. Tesco designs, manufactures and services highly efficient oilfield equipment that reduces the cost of drilling and producing oil and gas. Tesco is committed to an on-going, in-house research and development program that leads to the practical application of new technology.





TESCO IN THE WORLD TODAY

Operations Centres — Marketing Reps. — Top Drive Locations

Innovative Technology With An International Focus

Tesco's customers are oil, gas and geothermal operators, and the drilling and workover contractors throughout the world.

Financial Highlights

(Millions of Canadian Dollars, unless noted)	1997	1996	%	1995	1994
Revenue	96.6	41.9	+130%	26.2	20.1
EBITDA	33.3	16.0	+108%	7.8	3.1
Net Earnings	16.9	8.7	+94%	5.1	(0.2)
EPS (dollars per share fully diluted)	0.60	0.37	+62%	0.28	(0.01)
Rental Service Days	12,307	7,055	+74%	2,371	499
Capital Additions	28.6	19.3	+48%	12.1	4.3
Working Capital	28.4	11.1		6.3	9.9
Debt	NIL	NIL		NIL	NIL
Total Assets	109.4	58.1		31.0	22.0
Book Shareholders' Equity	87.2	43.6		22.5	17.3
Common Shares Outstanding*	27.3	22.6		16.9	16.9
Fully Diluted Shares Outstanding*	31.1	27.2		19.0	18.0

*(millions)

Common Share Performance

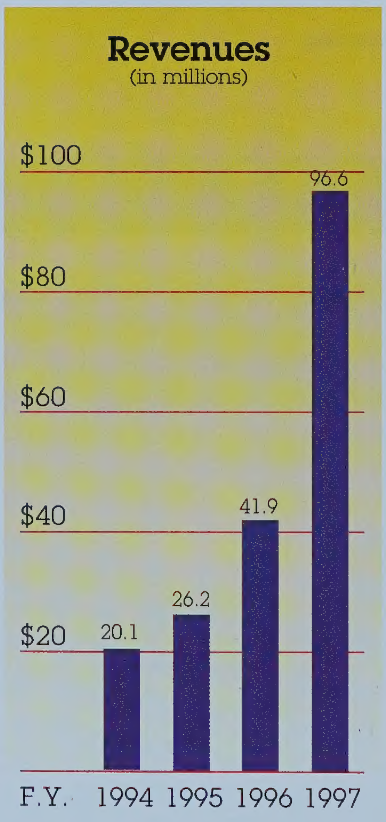
Month	Volumes (millions of shares) TSE ("TEO")	NASDAQ ("TESOF")	*Share Price ($CDN/per share) High	Low	Average
Mar. '96	3.26	-	$11.40	$7.60	**$9.32**
April '96	3.67	-	$13.10	$10.50	**$11.46**
May '96	1.62	-	$12.50	$10.70	**$11.74**
June '96	0.77	-	$12.25	$11.00	**$11.85**
July '96	0.95	-	$12.00	$11.00	**$11.46**
Aug. '96	1.72	-	$15.20	$11.45	**$13.24**
Sept. '96	0.91	-	$15.05	$14.10	**$14.78**
Oct. '96	1.15	-	$17.00	$14.75	**$15.93**
Nov. '96	3.06	-	$19.75	$16.00	**$18.09**
Dec. '96	1.68	0.08	$19.75	$17.25	**$18.17**
Jan. '97	2.15	0.03	$19.00	$17.25	**$18.04**
Feb. '97	1.32	0.10	$17.60	$15.80	**$16.71**
TOTAL	22.26	0.21	-	-	**$14.05**

* TSE Only

To Our Shareholders

In fiscal 1997, Tesco made significant progress toward achieving its goal of being a leading supplier of new technology to the oil and gas drilling industry. During the year, the Company dramatically increased its portable top drive business; introduced two new top drive products; expanded its worldwide marketing organization; added new business units and increased its commitment to research and development.

Tesco Corporation enjoyed another year of record financial results. Revenues rose 130% to $96.6 million; net earnings grew 94% to $16.9 million or $0.60 per share (fully diluted) and EBITDA increased 108% to $33.3 million. These gains were largely the result of continued market growth and penetration of the Company's portable top drives. As well, record results were achieved in the Gris Gun/Perfx division, which manufactures perforating and other downhole production equipment. Contributions were also made by Mainline Industries, acquired in June, 1996 and by Kelon Electric and Ener-Rig Supply, both acquired in May, 1996.

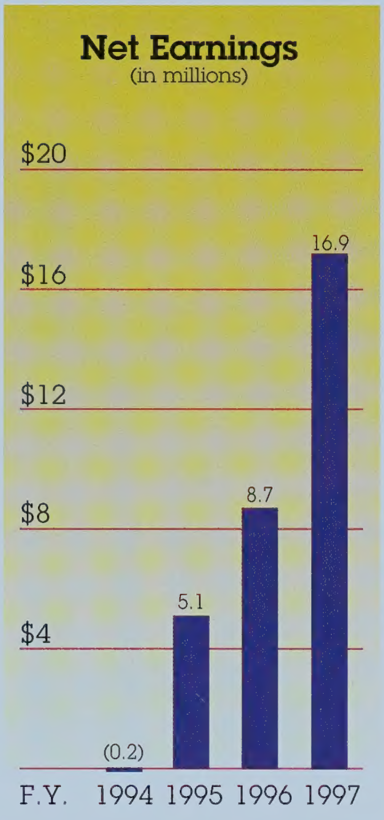


Tesco is a growth oriented, technology driven, international oilfield service company. Our objective is to develop new technologies that can dramatically improve drilling efficiency and reduce the cost of drilling wells. Our aim is not simply to improve on current drilling methods but to develop new ways to drill wells by utilizing management's extensive experience in the drilling industry and a commitment to research and development.

At the heart of Tesco's business is the rental of portable top drive systems. Tesco's unique concept of renting its units on a day-rate basis provides oil, gas and geothermal drilling customers with the advantage of using top drive systems when they have the highest incentives for reducing drilling costs such as with difficult drilling conditions or complex well programs. This marketing method was an industry first. Since our first rental in 1992, growth in our top drive rental business has exploded and continues to grow as fast as we can manufacture units. In fiscal 1997, our top drive rental fleet increased from 42 to 79 units and our rental days increased by 74%. We expect continued growth in the years ahead.

In late 1996, Tesco began field testing two important new top drive products. First is an electric top drive (500EC) for large electric land rigs and the offshore market. Our electric top drive utilizes state of the art, permanent magnet motor technology that gives it significant size, weight and operating advantages over other electric top drives available in the marketplace today. We are optimistic that this product will penetrate a market segment that was previously closed to us. The second exciting new product is a very compact top drive (150HMI) for workover rigs, a potentially enormous market given the growing number of deepenings and horizontal extensions being drilled from existing wells. The 150HMI is also well suited for installation in single and small double drilling rigs, giving the users of these rigs the capability of full-featured, top drive drilling. Both new units have performed extremely well in demanding field tests and industry interest has been high. A major marketing effort is in place to promote these new products to the industry.

In addition to providing an exciting growth market, our proprietary top drive technology has been a springboard for developing related products, services and research and development projects. During the year, the Company enjoyed the full benefits of our fiscal 1997 acquisition of Mainline Industries, a specialist in hydraulics systems design and technology; Kelon Electric, a specialist in electrical systems technology, and Ener-Rig Supply, a distributor of electric components. Each of these companies are stand-alone businesses and were instrumental in developing our successful top drive business. These businesses provide Tesco both with the benefits of vertical integration in our top drive manufacturing and more importantly, add significant hydraulic and electrical control expertise that will prove vital to our future product development.



During fiscal 1997, we began several new businesses. After considerable technical and market analysis, we created Reservoir Drilling Services, a division that will provide oil companies with integrated underbalanced drilling services. Demand for underbalanced drilling services is growing rapidly, particularly in North America, where existing wells are being deepened and horizontal legs added in new zones. Currently, a variety of separate services are contracted for underbalanced drilling and daily costs can exceed $40,000. Tesco believes that there is a large unfilled demand for "one-stop", underbalanced drilling packages that can improve drilling quality by coordinating these varied activities and substantially reducing the cost to operators. Reservoir Drilling Services has begun construction of its first integrated underbalanced drilling system which will incorporate several technological advances.

Other new divisions started are Engineering Management Services and rig building. Although these businesses are relatively small, they offer the Company important strategic benefits. For example, Engineering Management Services contracts skilled professionals to oil and gas operators worldwide. Through this program, Tesco is building a large network of highly skilled professionals, developing strong relationships with oil and gas companies throughout the world, gaining a "window" into our customers' drilling problems and needs and creating new business opportunities for the Company. In addition, the Company is building technically-advanced, modular drilling rigs that utilize its top drives and other drive package innovations.

To support our growing businesses and to meet customer demand, Tesco substantially expanded its research and development program in fiscal 1997. A new Research & Development center was opened in Calgary and the technical staff was expanded, enhancing the Company's engineering and applications capability. Applied research and development is the core of all of Tesco's businesses and will continue to generate new products and services that will result in continuing growth in revenues and earnings.

One of Tesco's most important research and development projects is our Casing Drilling joint venture. If successful, this project could fundamentally change the rotary drilling process, reducing costs of drilling oil, gas and geothermal wells by as much as 30%. During the year, the joint venture made considerable progress in resolving certain mechanical and technical hurdles associated with the process and plans to drill its first test well in its Calgary yard in late summer or early fall. If the project continues to progress at the current pace, we could begin commercialization in 1998.

Tesco has achieved spectacular growth over the past four years. The Company's success is largely attributable to five factors:

- ✓ customer orientation, both in identifying needs, delivering cost effective solutions and providing ongoing customer service;
- ✓ a focus on research and development, which generates innovative new products and services for the oil and gas industry;
- ✓ creating new markets where Tesco has substantial competitive advantages and limited competition;
- ✓ dedicated and talented employees, most of whom have become shareholders through our Employee Stock Savings Program. Their creativity and hard work has rapidly translated new ideas into commercially practical applications; and,
- ✓ the support of our shareholders and the investment community, which has allowed us to finance our growth with equity and maintain a strong balance sheet.

Tesco is positioned to benefit from oil and gas industry trends, which favor the use of our products. Drilling costs are rising, companies are drilling more difficult wells (extended reach, horizontal and underbalanced) and operators are utilizing more services and expensive downhole tools. Under these conditions, demand is high for equipment and services that can reduce the time it takes to drill a well and reduce the risk of losing valuable downhole tools. Tesco's products and services are aimed at achieving these savings.

During fiscal 1997, there were a number of important corporate developments. In April, 1996, Tesco completed its largest financing to date, raising $20 million in an offering of special warrants that were subsequently converted into two million common shares. In August 1996, Mr. Fred Dyment, President of Ranger Oil and Mr. Norm Robertson, Chairman of Prudential Steel, were elected to Tesco's Board of Directors. With their extensive experience in the international oil producing and service businesses, they have already made a significant contribution to the Company's progress. Mr. Bill Rice of Bennett Jones Verchere was appointed Chairman of the Board. In November 1996, Tesco's shares began trading on the NASDAQ National Market in addition to its existing listing on the Toronto Stock Exchange, where it was added to the TSE 300 Index in October.

All of us at Tesco take great pride in the Company's accomplishments and tremendous growth during fiscal 1997. We have created substantial value for our shareholders; provided valuable innovative services to our customers, and created a challenging and rewarding environment for our employees, who are the most important key to our success. However, greater challenges and opportunities lie ahead for Tesco and we are constantly planning for the future. One of our most important accomplishments during the year may not be as obvious as our financial results. It was our considerable progress in building a solid foundation for continued growth in the years ahead through market expansion, product innovations and new technologies developing from our commitment to research and development. We have the professionals, the technology and the financial resources to succeed and we look forward to another year of growth in fiscal 1998.

Robert M. Tessari
President and Chief Executive Officer

May, 1997

Review of Operations

PORTABLE TOP DRIVES

Tesco is the world leader in renting top drives for land rigs, a market that the Company effectively created with the introduction of its innovative line of compact, highly-portable, hydraulic top drives. Through its wholly-owned Tesco Drilling Technology (TDT) division, the Company designs, manufactures, sells, rents and services portable top drive units throughout the world.

Top drives replace the kelly and rotary table as the means of rotating the drill pipe on oil, gas and geothermal drilling rigs. Top drive drilling is a significant improvement over kelly drilling being 15 to 40% more efficient, thereby reducing the cost of drilling wells. The robotic pipehandling features of top drive improve efficiency and increase safety on the rig.

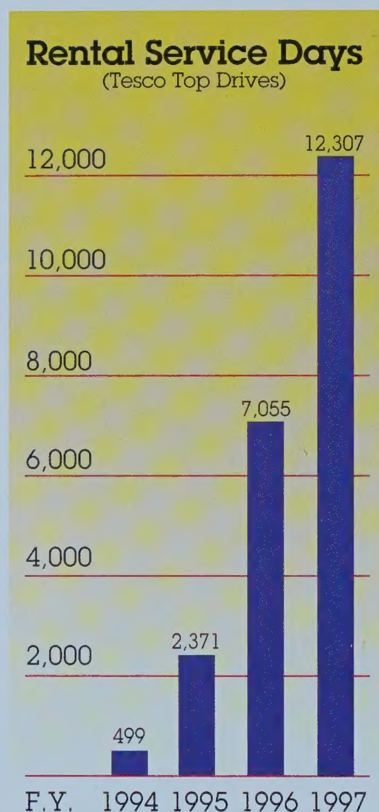
Tesco developed its prototype Hydraulic Standard or HS top drive, a revolutionary new product, specifically to meet the needs of the land rig market. The first commercial application of this unique new system occurred in 1992. The hydraulically powered top drive was both compact and lightweight. In addition, it was the first truly portable top drive ever built. The HS can be installed or removed from a rotary drilling rig in less than 24 hours and, because of its modular construction, can be shipped easily to any location in the world. The HS has been enthusiastically received by the oil industry and the Company increased its research and development effort in order to expand its product line. In 1995, Tesco introduced the HC or Hydraulic Compact top drive, an even smaller unit that increased the Company's land rig market still further.

In response to customer demand, Tesco introduced two new top drives during fiscal 1997. In November 1996, Tesco introduced the 500EC, a 500 ton, 900 horsepower Electric Compact top drive. This is the Company's first electric unit and is designed to compete in the large electric land rig market and the offshore market, where earlier generation DC top drives are being replaced. This product will compete with large established top drive manufacturers and has several technical and design features that distinguish it from its competitors. It utilizes revolutionary new permanent magnet motor technology which delivers excellent torque characteristics at low speeds; has a weight to horsepower ratio that is approximately 10% of competing products; is non-sparking and, of course, is both compact and portable. Rather than rush the EC to market, Tesco undertook extensive shop and field testing to ensure that the unit would meet or exceed company and customer standards. The field testing occurred during the period from November, 1996 to January, 1997 in Northern Canada. Despite temperatures of -40 degrees C and very difficult surface hole drilling, the units performed extremely well. Initial customer response has been excellent. The Tesco sales force is now aggressively marketing the EC. Twelve electric top drive units are scheduled for construction in fiscal 1998. As a follow-up to the success of the 500EC, Tesco is building a prototype 650 ton, 900 horsepower electric top drive with an integrated swivel. This top drive system is designed specifically for the offshore market.

In December 1996, the Company began marketing the Hydraulic Mini-Integrated top drive (HMI), an even more compact version of the HC with a 150 ton load rating, 450 horsepower power unit and an integrated swivel. The unit will fit into single and small double land drilling rigs, as well as service or workover rigs, a potentially huge market. Initial customer response has been very favorable. With the introduction of the HMI, Tesco hydraulic top drives can now be installed on any land rig in the world.

Tesco is now the only company that can produce a top drive for *every* rig in the world.

Tesco's innovative top drive products have distinguished the Company from its competitors. It is, however, Tesco's commitment to service that has won it a loyal and growing customer base. For example, to meet customer needs, Tesco created a top drive rental program for oil and gas operators wishing to use the units to drill just a portion of a well. This program was so successful that TDT's rental fleet has become its primary business, although direct sales to drilling contractors have become a growing part of the business. An integral part of Tesco's top drive rental business is its on-location service. Tesco rentals include an experienced top drive supervisor who oversees its operation on the rig 24 hours a day and include a supply of spare parts to ensure that any downtime is minimized. A supervisor also accompanies every top drive sold to ensure that the equipment is properly and quickly rigged up and that crews are trained in its effective use. Another reflection of the company's service orientation is its commitment to research and development. Every top drive product introduced has been in response to customer needs.



During fiscal 1997, Tesco expanded its manufacturing capacity from just over two top drives per month to more than four per month. As a result, the Company produced a total of 51 units during the year, compared to 29 units in fiscal 1996. Production in fiscal 1997 was made up of EC, HS, HC and HMI units. The Company's manufacturing facility in Calgary was expanded in order to both increase capacity and improve logistics and operating efficiency. Currently, Tesco has the capacity to produce up to 8 top drives per month. A new operations facility in Houston is being built to handle the rapidly growing U.S. and Latin American operations with a targeted occupancy of July, 1997. This expansion will merge U.S. operations and marketing into one facility; enhance service capabilities; reduce transportation and storage costs, and provide space for a possible U.S. operations base for other Tesco subsidiaries such as Mainline and Kelon.

The rental business continued to be Tesco's primary marketing focus in fiscal 1997. During the year, 37 new top drives were put into the rental fleet which rose to 79 units at February 28, 1997, up from 42 units a year earlier. Tesco now has top drive rental units in 16 countries around the world. At year end there were 21 rental units in Canada, 23 in the United States (compared to 12 a year earlier), 11 in Mexico (compared to 8), 6 in Indonesia and 2 each in Argentina, Japan and Holland. A variety of new customers were added in the U.S., Canada and internationally. In Mexico, Tesco is now operating under long-term contracts with Pemex, the state oil company. The Company has built strong relationships in Mexico, where growth in demand is expected to continue. Among the year's highlights was the first installation of a Tesco top drive on a semi-submersible, floating rig in the Caspian Sea. The unit was air-freighted to location by the Azerbaijan International Oil Company.

The number of rental service days rose to 12,307 compared to 7,055 days in fiscal 1996 and 2,371 days in fiscal 1995. The dramatic improvement reflected the increased size of the fleet. Utilization of the rental fleet averaged 62% during the year. Sales of Tesco top drives during fiscal 1997 rose to

14 units, including 2 units from the Company's existing rental fleet. Top drives were sold to several new customers including Maersk, Deutag and Pride Offshore and went to work in countries such as Canada, the United States, U.A.E, Nigeria and Venezuela. In fiscal 1996, the Company sold six units.

An important factor in the growth in sales and rentals during fiscal 1997 was a sizable expansion of the Company's sales force to accommodate growth in existing and new markets. Ten new salesmen joined the Company in Calgary, Houston and internationally. Substantial additions to marketing support and service staff were also made during the year.

The Houston office launched an aggressive marketing effort in Latin America, where substantial growth is anticipated. This effort has already resulted in new business in Venezuela and Argentina. New target markets include Bolivia, Colombia, Ecuador and Peru. In addition, marketing representatives were added in France and the Middle East, adding to agents and representatives already in place in Europe, China and other areas. The Company now has 9 marketing offices and 26 sales agents throughout the world.

One of Tesco's most important goals is safety, both for its own employees and those of its customers. The Company takes great pride in its safe work record around the world, which reflects the commitment to this goal in its manufacturing operations, the high quality of its field employees and the inherent safety characteristics of its products.

GRIS GUN/ PERFX

Gris Gun Manufacturing Inc. is a manufacturer and distributor of a proprietary line of oil and gas well completion products. The Company's principal products are expandable retrievable hollow steel carrier perforating guns, as well as a growing line of tubing conveyed perforating (TCP) products. These products play an integral role in the well completion process and are in growing demand as well completions become more complex.

Perfx Perforating Supply Ltd. is a distributor of third party products to the well completion segment of the industry and is the exclusive Canadian distributor for GOEX International Inc.'s line of oil field explosives.

In fiscal 1997, Gris Gun/Perfx had sales of $12.8 million, a 55% increase reflecting higher drilling and completion activity in Canada, the primary market for these products. A record 12,600 wells were drilled in Canada during calendar 1996 compared to 10,900 wells in 1995. Activity is expected to increase to as many as 13,500 wells in 1997. Operations also benefited from the first year of results from the acquisition of Weissenborn Oil Tool Ltd., a supplier of TCP products. International marketing efforts continued to expand, with emphasis on the Venezuelan market. The annual production of perforating guns rose to 27,000 metres, the highest level in the company's history and 70% higher than 1996.

During fiscal 1997, Gris Gun/Perfx took several important steps to position it for further growth in the years ahead. With available capacity to expand production, the company strengthened its branch operations by adding a new service facility in the Lloydminster region, close to the active heavy oil projects in the area. Key staff additions were also made to enhance the company's operating and technical strengths. In addition to the favorable market outlook for its products, Gris Gun/Perfx's expertise in downhole tool engineering is expected to play an important role in Tesco's continuing research and development programs, particularly its Casing Drilling joint venture.

KELON ELECTRIC AND ENER-RIG SUPPLY

In May 1996, Tesco acquired the business and assets of Kelon Electric Ltd. and Ener-Rig Supply Ltd. Kelon and Ener-Rig are engaged in the design, supply, service and manufacture of electrical systems for oil field and industrial applications. In the ten months of fiscal 1997 that Tesco owned Kelon and Ener-Rig, revenues were $6.1 million.

The Kelon and Ener-Rig acquisitions provided Tesco with many benefits. First, they vertically integrate the Company's electric top drive business. Kelon's expertise in the electrical drives needed for the top drive business will also play a critical role in servicing and enhancing Tesco's new EC electric top drives. Kelon has a large and experienced electrical field service organization that will provide support on a level comparable to Tesco's hydraulic business. Kelon also has the resources to support Tesco's R&D efforts in developing additional new technologies.

During fiscal 1997, Kelon became the authorized North and South American oilfield distributor for Kaman Electromagnetics' patented permanent magnet motor technology, which is an integral part of Tesco's EC top drive. The company also finalized an agreement to distribute advanced variable frequency drives that are well suited to a number of oil field applications and is involved in the application of these drives in a variety of areas. An operations centre was opened in Calgary during the year to serve additional customers among the Canadian drilling contractors, and several personnel additions were made in engineering, technical and sales. New sales initiatives were launched to expand Ener-Rig's markets to include the gas plant, industrial products and forest products industries.

MAINLINE INDUSTRIES

Mainline Industries was acquired by Tesco effective June, 1996. Mainline designs, manufactures, supplies and services hydraulic components for oil field and industrial applications. During the nine month period since being acquired by Tesco, Mainline generated $5.3 million in revenue.

Mainline provides Tesco with the benefits of vertical integration in the hydraulics side of its business and the technical skills to support its R&D efforts. Mainline has already introduced important improvements to the hydraulic performance of Tesco's successful HS and HC top drives and improvements made in motor and control technology were instrumental in the introduction of the HMI drive system. Mainline will also play an important role in the Casing Drilling joint venture and other new projects.

During fiscal 1997, Mainline added staff to strengthen its engineering and sales capabilities and opened a sales office in Edmonton to serve the growing northern Alberta forestry industry. Mainline's proprietary coker unheading system technology developed in partnership with Foster Wheeler, a worldwide engineering, procurement and construction contractor continued to gain market acceptance, with new installations in Texas, California and Russia.

RESERVOIR DRILLING SERVICES

Underbalanced drilling is a valuable drilling technique with tremendous growth potential. By drilling underbalanced, formation fluids are produced while drilling, keeping mud and cuttings from entering and damaging the producing formations. However, it is a more difficult and potentially risky drilling method that requires additional surface equipment and specialty services, each of which is generally provided by a separate company. As a result of this piecemeal approach, costs are high and difficultes in co-ordination often cause disappointing results. Tesco is developing a highly mobile, integrated underbalanced drilling system including project

management services that should improve results, lower operating risks and substantially reduce costs to operators.

Tesco began providing underbalanced drilling engineering services in August, 1996 with the acquisition of the business of Flow Drilling Engineering Ltd. The Company also began an R&D program to both develop new underbalanced drilling technology and to evaluate the feasibility of integrating the numerous services involved. This service immediately attracted significant interest from operators in Mexico, Venezuela, Alaska, China and the North Sea. New underbalanced drilling techniques were introduced in several vertical wells to test their applicability to vertical as well as horizontal wells. Staffing has been increased to handle strong demand for horizontal underbalanced well design and supervision jobs in northeastern British Columbia for such companies as Ranger Oil, Beau Canada and Paramount Resources.

Based on its initial market evaluation and research, Tesco is developing an improved blowout preventor system for underbalanced wells. Field testing is planned for the summer of 1997.

In April, 1997, Tesco began construction of its first integrated underbalanced drilling system, which is expected to be ready for field testing in September, 1997.

ENGINEERING MANAGEMENT SERVICES

Tesco's growing involvement in engineering and technical services to the worldwide oil and gas industry has uncovered a need for skilled managers to supervise the planning and drilling of difficult wells. To meet customer requirements, Tesco has added to its engineering and technical staff and created Engineering Management Services (EMS), a separate business unit within the Company. This unit is operating out of both Calgary and Houston. To enhance its capability, the Company is utilizing its extensive network of independent professionals to expand its resources and geographic reach. EMS gives Tesco a unique opportunity to be responsive to its customers needs; to further demonstrate its strong technical, engineering and management capabilities; to identify new opportunities to bring technology to customers' drilling problems and to secure a strong position to generate new business. EMS is working on several worldwide assignments with major oil company customers.

CASING DRILLING JOINT VENTURE

In 1995, Tesco acquired patent rights related to a revolutionary new drilling technology known as casing drilling. With casing drilling, a well would be drilled with oilfield casing; a collapsible drill bit (underreamer) and a downhole mud motor, all of which would be retrieved by wireline from within the casing. Such a system would have two major operating advantages over the current practice of drilling with drill string. First, the need to "trip" or remove the entire string of drill pipe to change a bit or bottom hole assembly would be eliminated. This process accounts for approximately 40% of total time required to drill a typical well. Secondly, because casing will be in the hole at all times, casing drilling can largely eliminate the incidence of stuck pipe, collapsed hole or other common problems encountered in conventional drilling. In turn, substantial cost savings can be achieved by reducing rig time and the cost of lost downhole tools. Tesco believes that casing drilling, if technically feasible, could reduce overall drilling costs by up to 30%.

To minimize Tesco's financial exposure to casing drilling R&D, the Company formed a joint venture in February 1996 and raised $5 million from outside investors. Tesco contributed its patent rights in exchange for an option to subsequently increase its interest in the venture to a level equal to the outside investors. Tesco, through its wholly-owned Casing Drilling Ltd. subsidiary, is the operator for the joint venture.

During fiscal 1997, Tesco built a technical staff to aggressively evaluate the technical feasibility of casing drilling. The design of downhole tools was commenced in co-operation with the engineering staff of Gris Gun and construction began on a new drilling rig designed specifically for casing drilling. The rig is expected to be completed in the summer of 1997 and will then begin drilling an 800 meter vertical test well in the yard at Tesco's R&D center in Calgary. If drilling results are favorable, the technology could be further developed and commercialization begun by early 1998.

In designing the casing drilling rig, Tesco is developing several innovations that could have significant commercial application in traditional drilling rigs. Enhancements include a modular construction and an advanced hydraulic drive system that will provide lighter, simpler drawworks and mud pumps, as well as variable speed power generation capability.

RESEARCH AND DEVELOPMENT

A commitment to research and development is the driving force behind Tesco's current and future success. From a corporate focus on top drive technology just three years ago, Tesco now has a strong R&D organization. During this period, the Company has built operating and technical capabilities to support and implement ideas created through R&D in such areas as hydraulic top drives, electric top drives, permanent magnet motors, underbalanced drilling, engineering services, rig building, casing drilling and variable speed power generation. The Company's research and development programs are also benefiting from Tesco's growing vertical integration and broader markets. Cross-fertilization of ideas and technology has already resulted in unique new product concepts with substantial commercial application.

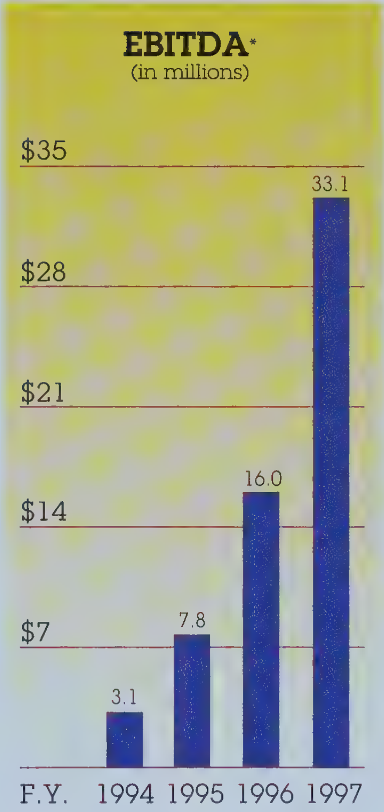
Management's Discussion and Analysis

The following is an historical review of Tesco's financial and operating results and should be read in conjunction with the consolidated financial statements of the Corporation for the years ended February 28, 1997 and February 28, 1996.

Analysis of Operations
Year Ended February 28, 1997

Total revenues increased by 130% to $96.6 million from $41.9 million. Drilling services revenues rose by 125% to $59.3 million as the Corporation increased its rental fleet from 42 portable top drive systems at February 28, 1996 to 79 systems at February 28, 1997. Billable rental days increased by 74% from 7,055 to 12,307 in the current fiscal year. At February 28, 1997 the Corporation had portable top drive systems operating in 16 countries.

During the year 14 top drive systems were sold compared to six systems in the preceding year. All top drive sales and rental contract revenues outside Canada were billed in U.S. dollars.



* Earnings before Interest, Taxes, Depreciation & Amortization

Sales by the Gris Gun/Perfx division were $12.8 million during the year ended February 28, 1997 compared to $8.2 million in the preceding year. Gris Gun/Perfx sales revenues are directly related to the number of western Canada oil and gas wells drilled which totalled approximately 12,600 in calendar 1996, compared to 10,900 in calendar 1995.

Revenues from the electrical division (Kelon and Ener-Rig) and the hydraulic division (Mainline Industries) totalled $9.4 million. In addition, these divisions supplied $5.8 million of sales to the top drive division which are excluded from consolidated revenue.

Direct costs of drilling services and oilfield equipment sales were up from $20.3 million in fiscal 1996 to $50.7 million in fiscal 1997 primarily due to the increase in sales revenue and the related number of employees.

Cash gross margins showed a minor decrease from 51% in fiscal 1996 to 47% in fiscal 1997 as a result of the acquisition of Kelon, Ener-Rig and Mainline which are lower margin businesses.

Depreciation and amortization expense increased from $2.1 million to $5.4 million due to the increase in the fleet of rental portable top drive systems, amortization of goodwill on acquisitions completed in fiscal 1997 and other capital asset additions.

Selling and general and administration expenses were up by $2.4 million and $4.0 million respectively reflecting increased sales activities and higher administrative support requirements. Research and development expenses increased by $0.8 million however the costs of the development of the Corporation's electric top drive and miniature hydraulic top drive were largely recovered by the sale of the prototype units and are therefore not reflected in this expense.

Current tax expense was $8.6 million compared with $4.1 million in the previous year and deferred tax expense was $2.1 million compared to $1.1 million in the previous year. The combined tax provision was 38.8% of income before taxes compared to 37.3% in fiscal 1996. During the current year the Company exhausted its remaining United States tax loss carry forward. At February 28, 1997 the Corporation had Canadian tax pools totalling approximately $46 million compared to $26.0 million plus U.S. tax loss carry forwards of approximately US $1 million at the end of the preceding fiscal year.

Additions to capital assets were $28.6 million during the year compared to $19.3 million during the preceding year. These additions included $25.4 million at the top drive division which were comprised mainly of rental portable top drive systems; $0.7 million consisting of capital assets purchased during the acquisition of Mainline and Kelon/Ener-Rig, and $2.5 million with respect to the purchase and equipping of the Corporation's Head Office and Research and Development Centre in southeast Calgary.

On April 1, 1996 the Corporation acquired the business of Weissenborn Oil Tool Ltd. for $1.1 million. This company provides tubing conveyed perforating equipment and it has been successfully integrated into the Gris Gun/Perfx division. On May 1, 1996, the businesses of Kelon Electric Ltd. and Ener-Rig Supply Ltd. were acquired for a total consideration of $2.6 million cash. On July 2, 1996, the business of Mainline Hydraulics Ltd. was acquired for $3.9 million cash with an effective date of June 1, 1996. The acquisition of these businesses included purchases of goodwill totalling $4.4 million which resulted in amortization expense of $0.5 million in the year ended February 28, 1997. During fiscal 1997 revenues from these acquired businesses totalled $15.7 million before intercompany eliminations of $5.8 million.

On April 4, 1996 the Corporation sold 2,000,000 special warrants at $10.00 each. The net cash proceeds of the sale of these special warrants after commissions and offering costs were $18.8 million. Other share capital issues with respect to share purchase options and warrants totalled $7.4 million.

The Corporation has commenced construction of two telescoping double drilling rigs which include a number of innovative concepts. These rigs have been pre-sold to a recently formed drilling contractor and will include provision of two of the Corporations HMI systems as well as new products from the Corporation's hydraulic and electrical divisions. The Corporation has also formed an Engineering Management Services division and an Underbalanced Drilling Services division, named Reservoir Drilling Services, which are expected to begin making positive contributions to revenues and gross profits in the year ended February 28, 1998. During fiscal 1998 it is expected that the Corporation will commit to expenditures of $5 million to earn a 48% share in the Tesco Casing Drilling Joint Venture.

Year Ended February 28, 1996

Revenues increased by 60% to $41.9 million from $26.2 million. Drilling services revenues tripled to $26.3 million as the Corporation increased its rental fleet from 19 portable top drive systems at February 28, 1995 to 42 systems at February 28, 1996. Billable rental days tripled from 2,371 in 1995 to 7,055 in the fiscal year. Rental contract revenue increased in Canada and the U.S.A. and new areas of rental operations included Mexico, the Philippines, Italy, Holland and Germany. During the year six top drive systems were sold compared to eight systems the preceding year. All sales outside Canada were billed in U.S. dollars. Top drive rental service revenues during the year ended February 28, 1996 amounted to $26.3 million (1995 - $8.2 million).

Sales by the Gris Gun division were $8.2 million during the year ended February 28, 1996 compared to the sales of $8.8 million in the fiscal year ended February 28, 1995. In 1989, when the division was purchased by Forewest, one of the Corporation's predecessor companies, annual sales were $1.7 million.

Total expenses were up 46% from $19.3 million for the year ended February 28, 1995 to $28.1 million primarily due to the increase in activities and related number of employees. Overall cash gross margins increased during the year. Depreciation expense rose by 120% due to the increase in the fleet of rental portable top drive systems. Selling, and general and administration expenses were up by 75% and 37%, respectively, reflecting the increased sales and production activities. Research and development expenses exclude the net cost of development of the hydraulic compact top drive. Costs of development to date of the electric top drive have been capitalized.

Current tax expense was $4.1 million and deferred tax expense was $1.1 million resulting in a tax provision of 37% of income before taxes compared to 41% 1995. The reduction is due primarily to the relative increase in the profit contribution from the United States allowing the utilization of certain

United States tax loss carry forwards. At February 28, 1996, the Corporation had Canadian tax pools totalling approximately $26.0 million plus United States tax loss carry forwards of approximately U.S. $1.0 million.

Additions to capital assets were $19.3 million during the year compared to $12.1 million in the preceding year. These additions were comprised mainly of rental top drive systems. $0.6 million was capitalized to technology, being the cost of development of the compact top drive system, net of proceeds received from the sale of the prototype unit. Other additions included $0.6 million at the Gris Gun plant in Red Deer which manufactures perforating guns.

At February 28, 1996, the Corporation's working capital position was $11.1 million compared to $6.3 million at February 28, 1995. The working capital included $4.1 million of cash. Each of accounts receivable, inventory and accounts payable increased due to the increase in the Corporation's activities.

Liquidity and Capital Position

At February 28, 1997 the Corporation's working capital position was $28.4 million compared to $11.1 million at February 28, 1996. The working capital included $5.6 million of tax payable. Each of accounts receivable, inventory and accounts payable increased due to the increase in the Corporation's activities.

The Corporation has a credit facility consisting of an operating line of $7.5 million and a revolving term facility of $7.5 million repayable over 5 years. The Corporation intends to draw on this facility as required to finance its ongoing cash requirements. Management believes that its banking arrangements, together with the funds generated from operations and anticipated proceeds from share purchase warrants expiring on December 31, 1997 will be sufficient to meet the Corporation's capital needs for the 1998 fiscal year.

Financial Performance Over Last Twelve Quarterly Periods
(millions of Canadian Dollars except per share amounts)

Quarter Ending	Gross Revenue	EBITDA*	Net Earnings	Net Earnings Per Share**
May 31, 1994	6.5	2.1	2.0	0.12
August 31, 1994	3.2	0.8	0.4	0.00
November 30, 1994	7.8	2.6	1.5	0.10
February 28, 1995	8.7	2.3	1.1	0.06
May 31, 1995	6.4	1.4	0.7	0.04
August 31, 1995	8.7	3.2	1.7	0.07
November 30, 1995	11.3	4.8	2.7	0.11
February 28, 1996	15.6	6.6	3.6	0.15
May 31, 1996	16.5	6.2	3.3	0.12
August 31, 1996	22.9	7.6	4.0	0.14
November 30, 1996	25.8	8.1	4.1	0.14
February 28, 1997	31.4	11.4	5.5	0.20

* Earnings before interest, taxes, depreciation and amortization ** Fully Diluted

Future Outlook

The Corporation has experienced dramatic growth over the past three years and Tesco continues to identify new growth opportunities. Many factors contribute to this favorable outlook:

✓ *Industry Conditions and Business Risks*

Conditions in the oil and gas industry are excellent. Oil and gas prices are at levels that support increased outlays for drilling, while new technology has reduced the cost of finding and producing oil. As a result, capital spending is expected to continue rising, a trend that began in 1993. The annual survey by Salomon Brothers, Inc. indicated that worldwide exploration and production spending in 1997, not including state oil company spending in areas such as Russia and China, is expected to reach over $80 billion, a 15% increase over 1996 and 25% higher than 1995. Demand for drilling services should benefit substantially from this trend and an estimated 21 new offshore drilling rigs and a greater number of new land rigs have been ordered, the first significant new rig construction activity in 15 years.

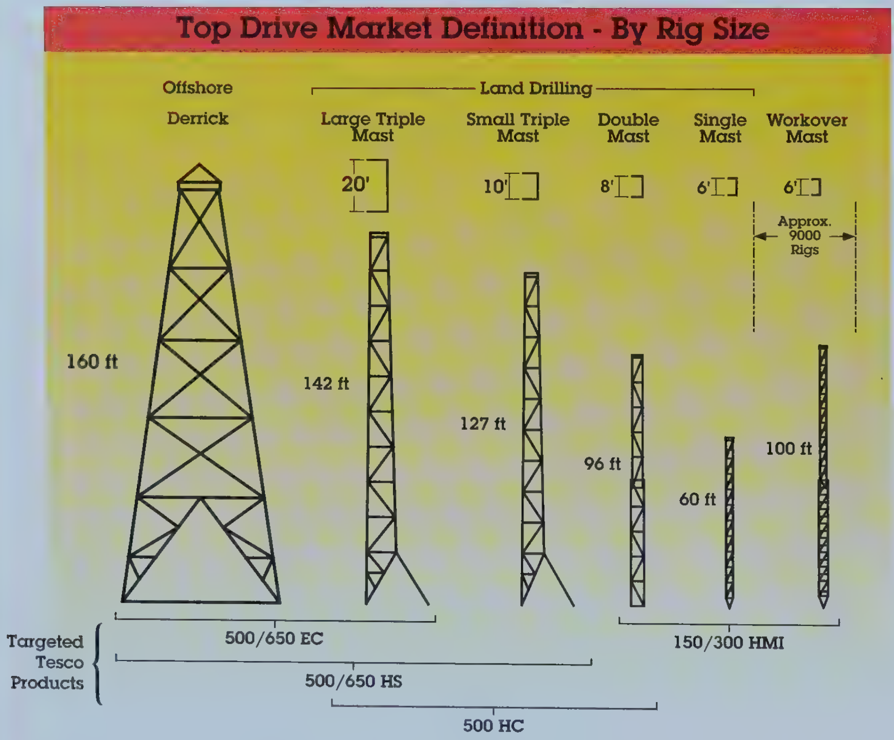
Although industry conditions are currently favourable, a substantial fall in oil and gas prices could quickly reduce the level of industry capital expenditures. The Corporation's business is focussed on technical innovation and there are strong competitors in the market whose efforts may affect the Corporation's existing and expected product markets and the gross margins currently being obtained.

✓ *Target Market Growing Rapidly*

Because of Tesco's R&D orientation, its market focus is on solving the most difficult drilling problems. The industry is drilling increasingly complex wells with high angle or horizontal legs in difficult formations that require better equipment, services and engineering. Tesco's top drives, engineering services, underbalanced drilling program and promising R&D projects, such as casing drilling, are all geared to overcoming drilling problems, reducing required rig time and lowering costs.

✓ *Land Rig Top Drive Market Still Largely Untapped*

Over 60% of offshore rigs utilize top drives. By comparison, Tesco has only scratched the surface of the land rig top drive market. There are almost 3,000 operating land drilling rigs in the world, less than 10% of which are fitted with top drives. Among small and medium sized land rigs, an even smaller portion have top drives. Tesco has a dominant position and competitive edge in this smaller rig market, which Tesco effectively created by introducing the portable hydraulic top drive. While competitive pressures are likely to grow in the future, this market continues to be robust. In addition the new HMI top drive system opens up the worldwide market for top drives in workover rigs. With the increasing amount of re-entry drilling to be done and with the tightening of the supply of land drilling rigs, the world's more than 9,000 workover rigs should provide a new and growing market for full-featured top drives sized to fit in these smaller rigs.



✓ *Worldwide Sales Force In Place And Profitable International Growth Anticipated*

The international growth opportunities for new drilling technologies are high. This is a large and profitable market that Tesco is aggressively targeting. With the substantial expansion of its marketing organization over the last 12 months, the Corporation anticipates significant growth in its worldwide business.

✓ *New Top Drive Products Expanding Market*

Tesco is continuing to improve its top drive technology and recently introduced two new units that have expanded the market for the Corporation's products. These proprietary top drives, each having favourable initial customer response, expand Tesco's exposure to the untapped service rig market and the offshore rig market.

✓ *Underbalanced Drilling - A New Business Opportunity*

Tesco is moving forward with an innovative underbalanced drilling program and is building its first integrated underbalanced drilling system. Customer interest in this effort is high and, if development work is successful, the Corporation anticipates a large market for these services.

✓ *Casing Drilling Potential - Open Ended*

Although still in the R&D stage, Tesco's casing drilling joint venture offers the potential for revolutionary change in the drilling industry. Many technical hurdles have been overcome and a test well will be drilled this year. If successful, casing drilling could be commercialized within two years, opening a potentially large market for the Corporation.

✓ *Strong Research and Development Program*

Tesco has made a substantial commitment to R&D. The depth and breath of this group's professional capabilities and ingenuity are reflected in the number of new products and innovations already developed and the exciting projects currently underway.

Top Drive Market Definition - By Number Of Rigs

Location	Rigs Available	Rigs Operating	Fitted with Top Drive	Tesco Targeted Products
OFFSHORE	**931**	**848**	**570**	**EC/HS**
CONVENTIONAL LAND				
Canada & USA	1,900	1,200		**HS/HC/HMI**
Europe & Africa	130	110		**HS/HC/HMI**
Middle & Far East	275	235		**HS/HC/HMI**
Latin America	290	217		**HS/HC/HMI**
China & FSU	1,700	1,200		**HS/HC/HMI**
TOTAL	**4,295**	**2,962**	**250**	
SERVICE RIGS	**9,000**	**5,000**	**Minimal**	**HC/HMI**

✓ *Stronger Corporate Organization, Financial Position and Industry Image*

Acquisitions completed during fiscal 1997 have strengthened Tesco's corporate organization and added to its technical, engineering and operating expertise. These acquisitions and equity financings have kept the Company in a strong financial position with minimal long-term debt. The Corporation expects to prudently fund its next growth phase through bank and other debt in order to maximize shareholder returns. The successes of fiscal 1997 have enhanced Tesco's image as a provider of high quality products with an intense customer service orientation, and have allowed the Corporation to attract high quality professionals, managers and field supervisors.

Management's Report

Management is responsible for the preparation of the consolidated financial statements and the information contained in this annual report. The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles using appropriate accounting policies, methods and estimates as selected by management giving consideration to the Corporation's circumstances. The financial and operating information included in this annual report is consistent, in all material respects, with that contained in the consolidated financial statements.

The Corporation maintains systems of accounting and internal controls to provide reasonable assurance that its financial information is reliable, relevant and accurate, and that its assets are adequately safeguarded. The Audit Committee, consisting of three non-executive directors, is responsible for reviewing the consolidated financial statements and other financial information contained in this annual report and overseeing management's performance of its financial reporting responsibilities. The Audit Committee has reviewed these financial statements with management and the auditors. The external auditors have unlimited access to the Audit Committee, are appointed by the Shareholders, and have independently examined the consolidated financial statements on the recommendation of the Audit Committee.

R.M. Tessari
President and Chief Executive Officer

Martin Hall, C.A.
Senior Vice President, Finance and Secretary

Auditors' Report

To The Shareholders of Tesco Corporation:

We have audited the consolidated balance sheets of Tesco Corporation as at February 28, 1997 and 1996 and the consolidated statements of earnings & retained earnings and changes in financial position for the years then ended. These consolidated financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at February 28, 1997 and 1996 and the results of its operations and the changes in its financial position for the years then ended in accordance with generally accepted accounting principles.

Price Waterhouse
Chartered Accountants

Calgary, Alberta
May 2, 1997

Consolidated Balance Sheets
as at February 28

(Thousands of Canadian Dollars)

ASSETS	Notes	1997 $	1996 $
Current assets			
Cash and short-term deposits		**4,597**	4,092
Accounts receivable		**29,876**	12,970
Inventories	3	**11,966**	6,132
		46,439	23,194
Capital assets	4	**58,561**	34,236
Goodwill and other assets	5	**4,416**	631
		109,416	58,061
LIABILITIES			
Current liabilities			
Accounts payable and accrued liabilities		**12,451**	10,739
Income taxes payable	6	**5,575**	1,336
		18,026	12,075
Deferred income taxes	6	**4,208**	2,393
		22,234	14,468
SHAREHOLDERS' EQUITY			
Share capital	7	**57,326**	30,619
Retained earnings		**29,856**	12,974
		87,182	43,593
		109,416	58,061

Signed on behalf of the Board of Directors

R.M. Tessari

Robert M. Tessari, Director

William S. Rice, Director

Consolidated Statements of Earnings & Retained Earnings for the years ended February 28

(Thousands of Canadian Dollars except for per share amounts)

	Notes	1997 $	1996 $
REVENUES			
Drilling services		**59,292**	26,289
Oilfield equipment		**36,405**	15,328
Interest and other		**913**	305
		96,610	41,922
EXPENSES			
Drilling services		**27,739**	10,519
Oilfield equipment		**22,990**	9,750
Depreciation and amortization		**5,434**	2,103
General and administration		**7,046**	3,042
Selling		**4,834**	2,467
Research and development		**897**	134
Gain on foreign exchange		**(175)**	-
Interest		**263**	36
		69,028	28,051
Earnings before income taxes		**27,582**	13,871
Income taxes - current	6	**8,629**	4,053
- deferred	6	**2,071**	1,122
		10,700	5,175
Net earnings for the year		**16,882**	8,696
Retained earnings - beginning of the year		**12,974**	4,278
Retained earnings - end of the year		**29,856**	12,974
Net earnings per share:			
- basic		**0.66**	0.43
- fully-diluted		**0.60**	0.37

TESCO

Consolidated Statements of Changes in Financial Position for years ended February 28

(Thousands of Canadian Dollars)

	Notes	1997 $	1996 $
OPERATING ACTIVITIES			
Net earnings for the year		**16,882**	8,696
Adjusted for items not involving funds -			
Deferred income taxes		**2,071**	1,122
Depreciation and amortization		**5,434**	2,103
		24,387	11,921
Changes in non-cash working capital balances		**(14,106)**	(2,362)
		10,281	9,559
INVESTING ACTIVITIES			
Business acquisitions	11	**(7,603)**	-
Additions to capital assets		**(28,563)**	(19,270)
Proceeds from sale of capital assets		**-**	863
Other assets (net)		**169**	106
		(35,997)	(18,301)
FINANCING ACTIVITIES			
Issue of share capital		**27,441**	12,838
Share issue costs		**(1,220)**	(759)
		26,221	12,079
Net increase in cash position during the year		**505**	3,337
Net cash and short term deposits - beginning of the year		**4,092**	755
Net cash and short term deposits - end of the year		**4,597**	4,092

Notes to the Consolidated Financial Statements for the years ended February 28, 1997 and 1996

(Thousands of Canadian Dollars)

1. Accounting Policies

(a) Consolidation

The consolidated financial statements include the accounts of the Corporation and its domestic and foreign subsidiaries, all of which are wholly-owned.

(b) Foreign currency translation

The Corporation's U.S. operations are considered to be fully integrated and all amounts in U.S. currency have been translated to Canadian dollars on the following basis:

(i) monetary assets and liabilities, at the exchange rate prevailing at year end;

(ii) non-monetary assets and liabilities, including deferred income taxes at the historic rate of exchange;

(iii) revenues and expenses (excluding depreciation and amortization which are translated at the same rate as the related assets), at the average rate of exchange for the period.

Resulting foreign exchange translation gains and losses including those arising from other transactions denominated in foreign currencies, are included in the statement of earnings.

(c) Inventories

Inventories are valued at the lower of cost and net realizable value. Cost of raw materials and finished goods is calculated on an average-cost basis. Work in progress includes raw materials, direct labour and applicable factory overhead.

(d) Capital assets

The Corporation's fleet of rental top-drive systems is included as drilling equipment in capital assets. The sale of rental top drive systems results in the net book value of such systems being expensed as a cost of sale of oilfield equipment.

(e) Depreciation and amortization

Depreciation and amortization are provided for on the straight-line method based on the estimated useful lives of the various major classes of assets as follows:

	Estimated useful life in years
Buildings	20
Drilling equipment	12
Manufacturing equipment	5
Technology and development costs	12

Office furniture and equipment and small tools are depreciated on the declining-balance method at rates ranging from 20-30%. Certain other capital assets are depreciated on the straight-line basis at rates varying between one and ten years. The estimated residual value of these assets is immaterial.

(f) Goodwill

Goodwill represents the excess of the cost of the purchase of various businesses over the net book value of their underlying net assets at the date of acquisition and is being amortized on a straight-line basis over five to ten years. Operations of the businesses to which the goodwill relates are assessed annually to determine the appropriateness of the carrying value of the goodwill.

(g) Research and development

The Corporation expenses research costs. Costs of product development for specific applications, which in the opinion of management are marketable, are capitalized as technology and amortized over the expected useful life of the asset.

(h) Per share information

Per share information is computed using the weighted average number of common shares outstanding during the year. Fully-diluted per share information is computed assuming that all options and warrants are exercised at their date of issue and the proceeds invested to generate earnings at an after tax yield equal to the expected income on investment of the proceeds.

2. Financial Instruments

The Corporation's financial instruments are substantially all cash and trade receivables and payables, the book value of which approximates their fair value. The Corporation's accounts receivable are principally with major international oil and gas service and exploration and production companies and are subject to normal industry credit risks. A substantial portion of the Corporation's revenues are denominated in U.S. dollars; the Corporation's management monitors the expected level of these revenues and will place appropriate currency hedges with major financial institutions when warranted. At February 28, 1997 and up to that time, the Corporation had not entered into any currency hedging arrangements.

The Corporation has negotiated a credit facility with its bankers that provides a maximum loan of $15,000, of which $7,500 is available as an operating loan secured by accounts receivable and inventories and $7,500 is available as a term loan secured by the Corporation's fleet of rental top drive units. Interest on amounts drawn under the facility is at the bank's prime rate for the operating loan and at prime plus one-half of one percent for the term loan. The term loan facility is repayable over a maximum of five years, with equal monthly principal payments required for three years starting from the end of the second year. At February 28, 1997, no amounts were drawn under the facility.

3. Inventories

	1997 $	1996 $
Raw materials	8,144	4,046
Work in progress	258	-
Finished goods	3,564	2,086
	11,966	6,132

4. Capital Assets

At February 28, 1997

	Cost	Accumulated Depreciation and Amortization	Net Book Value
Land, buildings and leaseholds	3,566	327	3,239
Drilling equipment	55,759	5,635	50,124
Manufacturing equipment	2,608	792	1,816
Technology and development costs	2,442	798	1,644
Office and other	2,529	791	1,738
	66,904	8,343	58,561

At February 28, 1996

	Cost	Accumulated Depreciation and Amortization	Net Book Value
Land, buildings and leaseholds	883	192	691
Drilling equipment	31,000	1,902	29,098
Manufacturing equipment	2,065	613	1,452
Technology and development costs	2,442	594	1,848
Office and other	1,572	425	1,147
	37,962	3,726	34,236

Drilling equipment includes related manufacturing costs and overhead. Work in progress relating to drilling equipment under construction totalling $1,956 (1996 - $3,541) is not depreciated. The net book value of drilling equipment included in cost of oilfield equipment sales for the year is $1,204 (1996 - $1,287).

5. Goodwill and Other Assets

	1997 $	1996 $
Goodwill	4,786	360
Accumulated amortization	(666)	(181)
	4,120	179
Other	296	452
	4,416	631

Included in other assets is $75 representing the Corporation's investment in the Casing Drilling Joint Venture. During the year ended February 28, 1996, the Corporation established the joint venture by the contribution of certain patent rights and formed a wholly owned subsidiary to manage the joint venture. The Corporation obtained cash financing of $5,000 for the joint venture from investors other than the Corporation, of which $700 was invested by certain senior officers of the Corporation. In connection with and as an incentive for the funding of the joint venture, the Corporation issued a total of 980,000 share purchase warrants and options exercisable at $6.50 per share to December 31, 1997 to the investors, of which 137,200 options were issued to the senior officers. The Corporation has the right to make future cash contributions to the joint venture to obtain an interest in the joint venture equal to all other participants. At February 28, 1997, the Corporation's interest in the joint venture was 3.8%.

6. Income Taxes

Income tax expense, which is 38.8% of income before income tax (1996 - 37.3%), varies from the amounts that would be computed by applying the combined federal and Alberta provincial income tax rate of 44.6% (1996 - 44.3%) due to the following factors:

	1997 $	1996 $
Income before tax	27,582	13,871
Expected tax expense	12,302	6,145
Reduction of expected tax expense as a result of:		
Tax rates applied to earnings not attributed to Alberta	744	-
Application of previously unrecognized tax losses of foreign subsidiary	498	886
Reduced tax rate on manufacturing operations	360	84
Income tax expense for the year	10,700	5,175

No provision is made for taxes that may be payable on the repatriation of accumulated earnings in the foreign subsidiary on the basis that these earnings will continue to be used to finance the activities of this subsidiary.

TESCO

7. Share Capital

(a) Authorized

- Unlimited common shares without par value
- Unlimited first preferred shares issuable in series
- Unlimited second preferred shares issuable in series

(b) Issued common shares

	Number of Shares	Amount $
Balance - February 28, 1995	16,934,418	18,261
Issued for cash on exercise of special warrants	4,200,000	10,080
Issued for cash on exercise of stock options	1,411,284	2,655
Issued for cash on exercise of share purchase warrants	80,701	103
Share issue costs (net of deferred tax benefits of $279)		(480)
Balance - February 28, 1996	22,626,403	30,619
Issued for cash on exercise of special warrants	2,000,000	20,000
Issued for cash on exercise of stock options	544,304	1,120
Issued for cash on exercise of share purchase warrants	2,160,150	6,321
Share issue costs (net of deferred tax benefits of $486)		(734)
Balance - February 28, 1997	27,330,857	57,326

(c) Special Warrants

On April 4, 1996, the Corporation sold 2,000,000 Special Warrants at a price of $10.00 each; these Special Warrants were converted to common shares and the shares were qualified for distribution pursuant to a prospectus filed by the Corporation dated June 20, 1996.

(d) Stock options

Outstanding stock options to purchase 2,838,906 common shares have been granted to the directors, senior officers and key employees. These options range in price from $2.17 to $17.75 and expire on various dates from September 10, 1997 to December 31, 2001. The gross proceeds to the Corporation if all these options were exercised would be $26,524

(e) Share purchase warrants

Warrants to purchase 943,352 common shares at prices ranging from $1.16 to $6.50 were outstanding at February 28, 1997. These warrants expire at various dates to December 31, 1997. The gross proceeds to the Corporation if all these warrants were exercised would be $5,635.

8. Commitments and Contingencies

(a) The Corporation has non-cancellable lease commitments for its manufacturing and operations facilities as follows:

Years ending February 28	$
1998	549
1999	472
2000	433
2001	299
2002	203
Thereafter	246

(b) The Corporation has been named as a defendant in a lawsuit claiming damages arising from an alleged personal injury incurred at one of the Corporation's job sites. The amount of the claim cannot be reasonably estimated at this time. Management believes that no material loss will result.

9. Related Party Transactions

(a) The Corporation entered into a ten year lease with a five year renewal option on an industrial building (at market rates, in the opinion of management) from a corporation controlled by a former director and officer. During the year ended February 28, 1997, the rent payable was $146 (1996 - $141). Non-cancellable lease payments over the remaining term of the lease will aggregate $1,049 (refer also to Note 8).

(b) The Corporation entered into a royalty agreement with Sonas Management Ltd., a corporation controlled by a director and senior officer of the Corporation, which provides for payment of a 5% royalty on all revenues derived from the sale, rental and lease of top drive units up to a maximum of $3,000. The royalty was granted for services rendered during the initial research phase of the portable top drive drilling system. Amounts payable under the royalty agreement were $44 in the year ended February 28, 1997 (1996 - $1,849), and the royalty is now paid out.

(c) In December 1993, the Corporation sold a top drive unit to Tesco Limited Partnership (#1) (the "Partnership") which is owned primarily by a director, senior officers and others for $630. The Corporation was entitled to receive management fees based on varying shares of the profit of the Partnership. During the year ended February 28, 1996, the Corporation accrued $98 of management fee income from the Partnership; the Partnership sold the top drive system prior to February 28, 1996.

(d) The Corporation made a demand loan of $128 bearing interest at 5% to a company controlled by a senior officer on February 1, 1994. This loan was repaid in full in February 1996, together with interest of $13.

10. Segment Information

The drilling services segment is comprised of the rental top drive systems together with related engineering support services. The oilfield equipment segment includes the sale of top drive systems and products from the perforating, electrical and hydraulics divisions. Geographic segments identify the major regions of the world where the Corporation does business.

(a) Business segments

At February 28, 1997	Drilling services $	Oilfield equipment $	Corporate $	Consolidated $
Revenues	59,292	36,405	913	96,610
Earnings before income taxes	20,515	9,337	(2,270)	27,582
Identifiable assets	84,986	18,735	5,695	109,416
Capital expenditures	25,275	1,191	2,097	28,563
Depreciation and amortization	4,469	838	127	5,434

At February 28, 1996	Drilling services $	Oilfield equipment $	Corporate $	Consolidated $
Revenues	26,289	15,328	305	41,922
Earnings before income taxes	11,368	3,607	(1,104)	13,871
Identifiable assets	46,515	6,393	5,153	58,061
Capital expenditures	17,648	1,174	448	19,270
Depreciation and amortization	1,674	426	3	2,103

(b) Geographic segments

At February 28, 1997	Canada $	United States $	Latin America $	Other International $	Consolidated $
Revenues	49,218	14,862	16,022	16,508	96,610
Earnings before income taxes	12,402	5,597	6,886	2,697	27,582
Identifiable assets	72,343	19,528	9,587	7,958	109,416
Capital expenditures	27,381	807	336	39	28,563
Depreciation and amortization	4,591	131	628	84	5,434

At February 28, 1996	Canada $	United States $	Latin America $	Other International $	Consolidated $
Revenues	17,599	10,257	3,005	11,061	41,922
Earnings before income taxes	2,183	5,004	1,563	5,121	13,871
Identifiable assets	36,029	13,203	4,307	4,522	58,061
Capital expenditures	18,665	605	-	-	19,270
Depreciation and amortization	2,043	60	-	-	2,103

11. Acquisitions

During the year, the Corporation acquired the following businesses:

	Weissenborn Oil Tools $	Kelon Electric $	Ener Rig Supply	Mainline Industries $	Combined $
Assets acquired:					
Inventory	70	325	625	1,433	2,453
Fixed assets	-	200	160	351	711
Goodwill	1,000	590	700	2,149	4,439
	1,070	1,115	1,485	3,933	7,603
Consideration:					
Cash	1,070	1,115	1,485	3,933	7,603

These acquisitions were recorded as purchases and the results of operations have been included in operations from the dates on which the businesses were acquired. Weissenborn operates in the perforating tools business, Kelon and Ener-Rig operate in the electrical contracting and supply business and Mainline operates in the hydraulics contracting and supply business. All the businesses acquired are based in Alberta.

The purchase price for Weissenborn Oil Tools was payable as to $470 on closing and the balance at various dates to March 31, 1999. These payments are based on sales volumes achieved during this period. It is anticipated that the full amount of the balance owing, which is included in accounts payable, will be paid by February 28, 1998.

12. Reconciliation to United States Generally Accepted Accounting Principles

The consolidated financial statements of the Corporation are prepared using accounting principles that are generally accepted in Canada. These principles differ in some material respects from those that are generally accepted in the United States. For the years ended February 28, 1997 and 1996, the principal differences that result in material measurement changes in the consolidated financial statements of the Corporation are:

(a) Accounting for Research and Development Costs

Costs of product development that are capitalized as technology and amortized under Canadian GAAP are required to be expensed in the period incurred under U.S. GAAP.

(b) Tax Benefit of Unutilized Loss Carry Forwards

Under Canadian GAAP, the tax benefit of losses is recognized when realized unless, at the time the loss is incurred, the realization of the benefit in a future period is virtually certain. Under U.S. GAAP the likelihood of the realization of a tax benefit from unutilized loss carry-forwards is assessed at each period end; a benefit is recorded in computing the current period tax charge based on this assessment.

(c) Valuation of Options and Warrants

U.S. GAAP requires that options and warrants issued for other than compensation purposes be accounted for at their fair value at the date granted. In December, 1995, the Corporation granted 980,000 options and warrants in conjunction with the formation of the Casing Drilling Joint Venture. These options and warrants had a fair value at their grant date of approximately $3,675, which amount would be added to the Corporation's investment in the Casing Drilling Joint Venture and to share capital for U.S. GAAP purposes.

(d) Reduction of Capital

In November 1993, the Corporation reduced its share capital by $13,842 to eliminate its accumulated deficit. U.S. GAAP requires that the financial statements continue to reflect this accumulated deficit by restating share capital on the basis that the reduction had not occurred.

(e) Computation of Earnings per Share

Canadian GAAP requires the computation and presentation of basic and fully diluted earnings per share, whereas U.S. GAAP requires the computation of primary and fully diluted earnings per share. The computation of basic earnings per share under Canadian GAAP differs from the computation of primary earnings per share under U.S. GAAP in that primary earnings per share includes the dilutive effect, calculated using the treasury stock method, of options, warrants and other common stock equivalents outstanding at the end of the year. The respective calculations of fully-diluted earnings per share under Canadian and U.S. GAAP differ principally in that, under Canadian GAAP, the dilutive effect of contingent common share issues is calculated by assuming a rate of return on the notional proceeds from contingent issues, whereas under U.S. GAAP, the treasury stock method is used.

The effect of these differences on the reported results and financial position of the Corporation is as follows:

Consolidated Statements of Earnings	**1997** $	**1996** $
Net earnings - Canadian GAAP	16,882	8,696
Adjusted for:		
Research and development costs	125	(236)
Tax benefit of loss carry-forwards	(498)	(340)
Net earnings - U.S. GAAP	16,509	8,120

Net earnings (in accordance with U.S. GAAP) per common share:

Primary	$0.61	$0.38
Fully diluted	$0.59	$0.35

TESCO

Consolidated Statements of Retained Earnings	1997 $	1996 $
Retained earnings, beginning of the year		
- Canadian GAAP	12,974	4,278
Adjusted for:		
Cumulative effect of research and development costs	(1,105)	(869)
Cumulative effect of tax benefit of loss carry forward	360	700
Reduction of share capital	(13,842)	(13,842)
- U.S. GAAP	(1,613)	(9,733)
Net earnings for the year		
- U.S. GAAP	16,509	8,120
Retained earnings, end of the year		
- U.S. GAAP	14,896	(1,613)

Consolidated Balance Sheets	1997 $	1996 $
Capital assets		
- Canadian GAAP	58,561	34,236
Adjusted for:		
Research and development costs	(1,644)	(1,848)
- U.S. GAAP	56,917	32,388
Goodwill and other assets		
- Canadian GAAP	4,416	631
Adjusted for:		
Valuation of options and warrants	3,675	3,675
- U.S. GAAP	8,091	4,306
Deferred income taxes		
- Canadian GAAP	4,208	2,393
Adjusted for:		
Research and development costs	(664)	(743)
Loss carry forwards	138	340
- U.S. GAAP	3,682	1,990
Share capital		
- Canadian GAAP	57,326	30,619
Adjusted for:		
Valuation of options and warrants	3,675	3,675
Reduction of share capital	13,842	13,842
- U.S. GAAP	74,843	48,136

Notes

Notes

Notes

Corporate Information

DIRECTORS

Fred J. Dyment [1, 2]
President and Chief Executive Officer, Ranger Oil Limited
Calgary, AB

James E. McCormick [1, 2]
Independent Businessman,
Dallas, TX

William S. Rice [1, 3]
Chairman of the Board, Partner, Bennett Jones Verchere
Calgary, AB

Norman W. Robertson [2, 3]
Independent Businessman,
Calgary, AB

Robert M. Tessari [3]
President and Chief Executive Officer Tesco Corporation
Calgary, AB

[1] Audit Committee
[2] Compensation Committee
[3] Corporate Governance Committee

OFFICERS

Robert M. Tessari
President and Chief Executive Officer,
Tesco Corporation

Per G. Angman
Chief Operating Officer,
Tesco Corporation

Martin Hall
Senior Vice President, Finance and Secretary,
Tesco Corporation

Colin B. Murch
Vice President, Business Development,
Tesco Corporation

Evert Beierbach
Senior Vice President and General Manager,
Tesco Drilling Technology

Michael Brouse
Senior Vice President and General Manager,
Tesco Drilling Technology Inc.

Gerry R. Marshall
Vice President, Marketing
Tesco Drilling Technology

Delton A. Campbell
Senior Vice President and General Manager,
Gris Gun Manufacturing Inc.

BANKERS

Bank of Nova Scotia
Calgary, AB

Sterling Bank
Houston, TX

LEGAL COUNSEL

Bennett Jones Verchere
Calgary, AB

Porter & Hedges
Houston, TX

AUDITORS

Price Waterhouse
Calgary, AB

TRANSFER AGENTS

Montreal Trust
Calgary, AB

SALES/SERVICE LOCATIONS

Alaska	Kuwait
Algeria	Mexico
Australia	Oman
Argentina	Nigeria
Bolivia	Phillipines
Brazil	Peru
Columbia	Poland
Ecuador	Qatar
Egypt	Saudi Arabia
India	Singapore
Indonesia	South Africa
Iran	Spain
Israel	U.A.E.
Italy	United Kingdom
Japan	Venezuela

CORPORATE OFFICE

Tesco Corporation
6204 - 6A Street S.E.,
Calgary, AB T2H 2B7
Tel: (403) 233-0757
Fax: (403) 252-3362

DIVISIONAL OFFICES

Tesco Drilling Technology
4930 - 74 Avenue S.E.,
Calgary, AB T2C 3C9
Tel: (403) 722-2858
Fax: (403) 720-2868

Tesco Drilling Technology Inc.
11330 Brittmoore Park Drive,
Houston, TX 77041
Tel: (713) 849-5900
Fax: (713) 849-0075

Gris Gun Manufacturing Inc.
Perfx Perforating Supply Ltd.
5409 - 39139 Hwy. 2A
Red Deer County, AB T4S 2B3
Tel: (403) 340-1017
Fax: (403) 340-1018

Kelon Electric Inc.
Ener-Rig Supply Inc.
Bay 2, 2104 - 7 Street,
Nisku, AB T9E 7Y2

Mainline Industries Inc.
6407 - Burbank Road S.E.,
Calgary, AB T2H 2E1
Tel: (403) 253-3025
Fax: (403) 253-3038

ANNUAL MEETING

The annual general meeting of the shareholders of Tesco Corporation will be held at

The Blackfoot Inn,
Fairmount Room,
5940 - Blackfoot Trail S.E.,
Calgary, AB

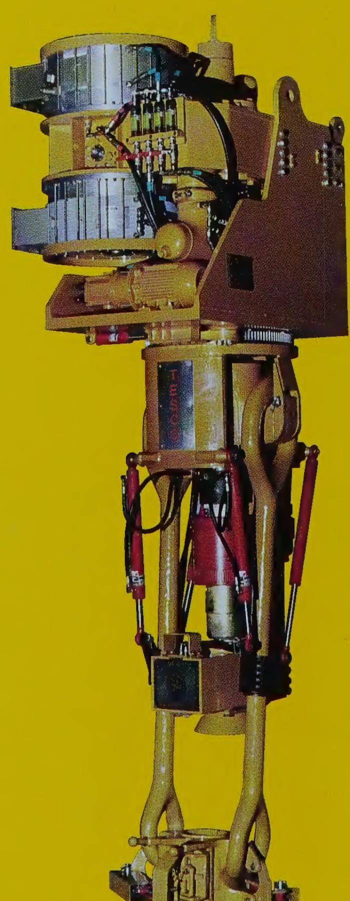
June 26, 1997
3:00 pm

Printed in Canada

Designed by Robert Wiebe & Associates Inc., Red Deer, AB

TESCO

CORPORATION



6204 - 6A Street S.E., Calgary, Alberta T2H 2B7